

**GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA**

STARRED QUESTION NO:382

ANSWERED ON:21.04.2005

INCREASE IN PRICES OF PETROLEUM PRODUCTS

Rawat Shri Kamla Prasad;Sethi Shri Arjun Charan

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) whether in view of the recent hike in crude oil price in the international market the Government proposes to increase the prices of petroleum products in the country;
- (b) if so, the details thereof;
- (c) whether the Government has received representations for withdrawal of additional cess on petrol and diesel keeping in view the proposed steep hike in oil products; and
- (d) if so, the details thereof; and
- (e) if not, the steps Government proposes to control the prices of the petroleum products ?

Answer

MINISTER OF PETROLEUM & NATURAL GAS AND PANCHAYATI RAJ (SHRI MANI SHANKAR AIYAR)

(a) to (e) A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (e) OF LOK SABHA STARRED QUESTION NO. 382 BY SARVASHRI ARJUN SETHI AND KAMLA PRASAD RAWAT TO BE ANSWERED ON 21ST APRIL, 2005 REGARDING INCREASE IN PRICES OF PETROLEUM PRODUCTS.

(a) to (e) : Since the end of 2003, there has been an unprecedented, sharp and spiraling increase in international oil prices combined with considerable week-to-week and even day-to-day volatility. The Indian basket of crude oil touched an all-time high of US \$ 52.83 per bbl on 04.04.2005 compared to an average price of US \$ 27.96 per bbl in 2003-04 and US \$ 39.21 per bbl in 2004-05. There has since been some softening, the Indian basket having declined to around US \$ 47/bbl in the week ending 16.4.2005. The Government is continuously monitoring the price situation.

With a view to containing the burden of the increase in international prices on consumers of diesel and petrol, it was decided that the burden should be equitably shared also by the Government and Oil Companies. Thus, Government reduced the excise duty on petrol and diesel by 4% and 3% respectively effective 16/6/04. Effective 19/8/04, the excise duty on petrol and diesel was further reduced by 3%. The Government also reduced customs duty by 5% each on petrol and diesel with effect from 19/8/04. In the Budget 2005-06, a reduction in custom duty on crude from 10% to 5% and in other petroleum products from 15-20% to 10% was announced.

Public Sector Oil Marketing Companies (OMCs) have not passed on the full increase in international prices to the domestic consumer prices of these products. Although, with effect from 1st August 2004, Government had worked out a price band mechanism, allowing OMCs freedom to revise the prices of petrol and diesel within the prescribed price band, the steep and volatile increase in the international prices of crude oil resulted in the ceiling of the price band being breached within weeks of its being made operational resulting in the mechanism being placed in abeyance.

The pricing mechanism attempts to balance the interests of various stakeholders, viz., Consumers, Government and Oil Companies. The burden borne by oil companies will, of course, go up to the extent that domestic prices are not revised upwards when international prices shoot up, but it is hoped that when international prices stabilize, or Government so decides, the price band mechanism might be restored. It may be noted that private sector companies are free to fix their prices.

As regards withdrawal of cess, Ministry of Finance has informed that representation has been received by the Ministry of Finance from the All India Confederation of Goods Vehicle Owners' Association (AICGVOA) requesting Government to review/withdraw the additional cess of 50 paise per litre on diesel or, as an alternative, exempt truckers from the payment of toll on highways.